

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 EURE-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

OPIC-12 SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 DRC-01

FS-01 ABF-01 NSC-10 SS-20 STR-08 CEA-02 PA-04 PRS-01

USIA-15 DOTE-00 /176 W

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P R 231500Z NOV 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 1989

INFO AMEMBASSY BERN

AMEMBASSY BONN

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMCONSUL MILAN

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL NAPLES

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY: BANK OF ITALY IS CONTINUING TO INTERVENE
IN EXCHANGE MARKET TO SUPPORT LIRA SO FAR IN NOVEMBER.
BALANCE OF PAYMENTS DEFICIT IN OCTOBER WAS \$234 MILLION AND
CUMULATIVE TEN-MONTH DEFICIT WAS \$577 MILLION. REPORTS
IN ITALIAN PRESS OF FURTHER MASSIVE EUROMARKET BORROWINGS
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BY ITALIAN STATE ENTITIES ARE SOMEWHAT EXAGGERATED. END

SUMMARY.

2. BANK OF ITALY CENTRAL DIRECTOR RESPONSIBLE FOR EXCHANGE OPERATIONS (ERCOLANI) TOLD TREASURY ATTACHE NOVEMBER 21 THAT BANK HAD HAD GOOD DAYS AND BAD SO FAR THIS MONTH, BUT ON BALANCE HAS HAD NET INTERVENTIONS IN SUPPORT OF COMMERCIAL LIRA RATE. HE ATTRIBUTED LIRA WEAKNESS IN PART TO PAYMENTS FOR PETROLEUM IMPORTS.

3. MONETARY MOVEMENTS DATA THROUGH OCTOBER 31 SHOW BOP DEFICIT THAT MONTH OF \$234 MILLION, DESPITE RECEIPT OF \$100 MILLION IN PROCEEDS FROM STATE RAILWAYS BORROWING IN EURO-MARKET. MONTHLY DEFICIT WAS ENTIRELY FINANCED FROM NET OFFICIAL ASSETS, WHICH DECLINED BY \$294 MILLION, WHILE COMMERCIAL BANKS' NET FOREIGN POSITION IMPROVED BY \$60 MILLION. FOR ENTIRE TEN MONTHS, GLOBAL DEFICIT WAS \$577 MILLION, ALL OF WHICH WAS FINANCED BY REDUCTION IN NET OFFICIAL ASSETS, AS NET FOREIGN POSITION OF COMMERCIAL BANKS WAS VIRTUALLY UNCHANGED.

4. DURING OCTOBER RECEIPT OF FIRST TRANCHE OF \$100 MILLION FROM STATE RAILWAYS EUROMARKET LOAN OF \$200 MILLION BROUGHT CUMULATIVE TOTAL OF EUROMARKET BORROWINGS FOR TEN MONTHS TO \$3,232 MILLION. MILAN FINANCIAL DAILY 24 ORE ON NOVEMBER 16 REPORTED FROM LONDON THAT SERIES OF ADDITIONAL EUROMARKET LOANS BY ITALIAN STATE ENTITIES ARE UNDER NEGOTIATION, WHOSE TOTAL WOULD RANGE FROM \$1.3 TO \$1.6 BILLION. ERCOLANI SAID THAT REPORT WAS EXAGGERATED, ALTHOUGH NEGOTIATIONS OF TWO LOANS ARE FAIRLY WELL ALONG. THEY ARE IRI AUTOSTRADA LOAN OF \$150 MILLION AND MESSINA-PALERMO-CATANIA AUTOSTRADA LOAN OF \$120 MILLION. IN ADDITION, THERE HAS BEEN SOME CONSIDERATION OF CASSA PER IL MEZZOGIORNO EUROMARKET LOAN IN RANGE OF \$500 TO 800 MILLION. HOWEVER, THERE IS NOTHING DEFINITE YET ON LATTER. ERCOLANI POINTED OUT THAT BY END-1973 TOTAL OUTSTANDING EUROMARKET LOANS TO SUCH STATE ENTITIES WILL AMOUNT TO ABOUT \$5 BILLION, WHICH MAY WELL BE APPROACHING SATURATION POINT OF EUROMARKET FOR SUCH ITALIAN ISSUES.

5. COMMERCIAL LIRA EXCHANGE RATE ON NOVEMBER 22 WAS 597.95 LIMITED OFFICIAL USE

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LIRE PER DOLLAR AND FINANCIAL RATE WAS 625.75 LIRE PER DOLLAR. COMMERCIAL RATE WAS, THUS, AT LOWEST POINT AGAINST DOLLAR SINCE LAST JUNE. ON SAME DATE WIEGHTED AVERAGE DEVALUATION OF LIRA FROM DATE OF SECOND DOLLAR DEVALUATION IN FEBRUARY ACCORDING TO 24 ORE INDEX WAS 12.73 PERCENT, IE.E., LITTLE CHANGED FROM LEVEL OF PAST COUPLE WEEKS. VOLPE

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